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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS
JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
BLACK MOUNTAIN GAS COMPANY AND
SEMSTREAM ARIZONA PROPANE, L.L.C. FOR
APPROVAL OF THE TRANSFER OF THE BLACK
MOUNTAIN PAGE DIVISION AND RELATED
ASSETS TO SEMSTREAM ARIZONA PROPANE
L.L.C.

DOCKET NO. G-03703A-06-0694

DOCKET NO. G-20471A-06-0694

**NOTICE OF FILING OF DIRECT
TESTIMONY**

SemStream Arizona Propane, L.L.C., through undersigned counsel, hereby files the
attached, direct testimony of Larry C. Payne in support of the above-captioned Application.

RESPECTFULLY SUBMITTED this 8th day of February 2007.

QUARLES & BRADY LLP

By

Kevin D. Quigley

One Renaissance Square

Two North Central Avenue

Phoenix, Arizona 85004-2391

Attorneys for SemStream Arizona Propane, L.L.C.

Arizona Corporation Commission
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1 **Original and fifteen copies** filed this
2 8th day of February 2007, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

7 **Copies** of the foregoing delivered
8 this 8th day of February 2007, to:

9 Chairman Jeff Hatch-Miller
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Commissioner William A. Mundell
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17 Commissioner Mike Gleason
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

21 Commissioner Kristin K. Mayes
22 Arizona Corporation Commission
23 1200 West Washington
24 Phoenix, Arizona 85007

25 Commissioner Gary Pierce
26 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Maureen Scott, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Barbara Keene, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Bob Gray, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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Copy of the foregoing mailed
this 8th day of February 2007 to:

Karen S. Haller
Keith Brown
5421 Spring Mountain Road
Las Vegas, Nevada 89150-0002
Attorneys for Black Mountain Gas Company

M. Wells

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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WILLIAM A. MUNDELL
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DIRECT TESTIMONY OF

LARRY C. PAYNE

ON BEHALF OF

SEMSTREAM ARIZONA PROPANE, L.L.C.

FEBRUARY 8, 2007

1 Question 1: Please state your name and address.

2 Answer 1: My name is Larry C. Payne. My business address is SemStream, L.P.,
3 6120 South Yale, Suite 700, Tulsa, Oklahoma, 74136.

4
5 Q2: What is your position with SemStream, L.P.?

6 A2: I am the President and Chief Operating Officer of SemStream, L.P., and the chief
7 officer for its subsidiary, SemStream Arizona Propane, L.L.C. ("SemStream Arizona"). In this
8 capacity, I am responsible for overall management and growth of SemStream, L.P. and
9 subsidiaries.

10
11 Q3: Please summarize your education and experience.

12 A3: I have a Bachelor of Science degree in Business from Grambling State University
13 and a Master of Business Administration degree (MBA) with concentration in Finance and
14 Economics from Texas Southern University. I have over 30 years of total work experience. Over
15 the last 20 years, I have served in key senior officer level positions in the energy industry. I have
16 been responsible for Retail Propane Supply, Hedging and Risk Management; Natural Gas Liquid
17 ("NGL") Supply and Marketing; Petrochemical Marketing; Commodity Management; and
18 management of various NGL assets, such as terminals, pipelines, fractionators, storage and
19 transportation equipment.

20
21 Q4: On whose behalf are you filing your direct testimony in this matter?

22 A4: My testimony is filed on behalf of SemStream Arizona. SemStream Arizona is a
23 joint applicant, along with Black Mountain Gas Company, for approval of the transfer of the
24 Certificate of Convenience and Necessity ("CC&N") and other regulated assets of Black
25 Mountain Gas Company Page Division ("Black Mountain Page Division") in connection with the
26

1 contemplated sale of the Black Mountain Page Division propane distribution system and business
2 to SemStream Arizona.

3
4 Q5: Can you describe the contemplated sale?

5 A5: Black Mountain Gas Company, as a wholly-owned subsidiary of Southwest Gas
6 Corporation ("Southwest"), and SemStream, L.P. entered into a Purchase and Sale Agreement
7 dated September 20, 2006 (the "Agreement") for the sale of the Black Mountain Page Division
8 propane system in and near the City of Page, Arizona. A copy of the Agreement was filed with
9 the Joint Application. SemStream, L.P. assigned its rights to acquire the regulated businesses
10 assets of the Black Mountain Page Division to SemStream Arizona on October 26, 2006.

11 If the Joint Application is approved, then under the Agreement SemStream Arizona will
12 take over the ownership and operation of the Black Mountain Page Division propane gas
13 distribution system within its service area in and near the City of Page, Arizona. SemStream
14 Arizona will assume the existing propane system operations of the Black Mountain Page Division
15 and, to assure a seamless transition and continuity of service, intends to retain Black Mountain
16 Page Division's current employees and management, subject to these employees' own desire to
17 remain employed in the business.

18
19 Q6: If the Joint Application is approved, who will run the Arizona business being
20 acquired from Black Mountain?

21 A6: It is SemStream Arizona's intent to retain the employees of the Black Mountain
22 Page Division currently involved in the propane business. These employees would continue to
23 operate the business. Floyd Elmore, who currently runs the day-to-day business, would be
24 retained as the supervisor for SemStream Arizona's daily operations in Page. In addition, Doug
25 Mann, who formerly ran the Energy West propane business in and around Payson, Arizona, will
26 be involved in purchasing propane for use in the Page system and will report to David Wunch,

1 who is the Executive Vice President for SemStream, L.P. and is responsible for all of SemStream,
2 L.P.'s assets. Our proposed purchase of the Payson system from Energy West is discussed in
3 Docket Nos. G-02696A-06-0515 and G-20471A-06-0515, and closing of that transaction is
4 dependent on approval by the Arizona Corporation Commission ("Commission").
5

6 Q7: What is the SemStream Arizona entity?

7 A7: SemStream Arizona is a Delaware limited liability company in good standing that
8 will operate the propane system and own the assets currently held by Energy West. The current
9 address for SemStream Arizona is 6120 South Yale, Suite 700, Tulsa, Oklahoma, 74136;
10 SemStream Arizona also maintains a statutory agent but has no physical presence at 1209 Orange
11 Street, Wilmington, Delaware, 19801. SemStream Arizona is registered with the Commission
12 and is considered to be a limited liability company in good standing. SemStream Arizona
13 maintains a domestic address and local statutory agent for service of process at CT Corporation
14 System, 2394 E. Camelback Road, Phoenix, Arizona 85016. If SemStream Arizona's purchase of
15 the Payson-area regulated propane system from Energy West is approved by the Commission,
16 then SemStream Arizona's local presence will include the offices where Energy West's propane
17 system employees work today. If SemStream Arizona's purchase of the Black Mountain Page
18 Division regulated propane system is approved by the Commission, its local presence will expand
19 further to include the offices where the Black Mountain Page Division's employees work today.

20 SemStream Arizona is a wholly-owned subsidiary of SemStream, L.P., which is one of the
21 largest private propane terminal operators in the industry and is engaged nationally in natural gas
22 liquids supply, marketing, propane terminal operations and risk management services.
23 SemStream, L.P. is, in turn, a subsidiary of SemGroup, L.P. of Tulsa, Oklahoma.
24

25 Q8: Can you tell us more about SemStream, L.P.?

26 A8: SemStream, L.P. is a Delaware limited partnership that owns and operates 10

1 private propane terminals with a combined throughput in excess of 300 million gallons per year
2 and owns and leases more than 10 million gallons of physical storage. In 2005, SemStream, L.P.
3 moved 6.8 million gallons per day of NGLs via truck, pipeline, and rail. Propane accounted for
4 42% of this volume. SemStream, L.P. has access to more than 42 million gallons of storage
5 capacity leased at multiple locations in the United States and Canada. It also operates a fleet of
6 450 leased and owned railcars. As its subsidiary, SemStream Arizona has access to all these
7 assets and the management and staff that support them.

8
9 Q9: What experience does SemStream, L.P. or SemStream Arizona have in serving
10 individual customers of a propane distribution system?

11 A9: Each member of the senior management team at SemStream, L.P. has over 30
12 years of work experience and more specifically, each has retail propane experience in one of the
13 top two retail companies, which served individual customers with their propane distribution
14 systems. I was responsible for retail propane supply at Ferrellgas for about 12 years; David
15 Wunch was responsible for running a retail area for AmeriGas Propane as well as propane supply.
16 The third member of the senior management team is Vance Harrington who is a Vice President
17 for SemStream, L.P. Vance spent over 8 years running propane supply for Thermogas Propane,
18 which was later sold to Ferrellgas. In addition, if SemStream Arizona's acquisition of the Payson-
19 area regulated assets of Energy West is approved by the Commission, then by the time the Joint
20 Application for the transfer of Black Mountain Page Division assets and CC&N could be
21 approved, Doug Mann, who has considerable experience operating the day-to-day businesses of
22 providing propane to customers in Arizona, would be an executive of SemStream Arizona and a
23 member of the team that would manage the Black Mountain Page Division.

24 Further, the Black Mountain Page Division employees currently involved in the existing
25 propane distribution system which serves the Page area will, we intend, be retained and will bring
26 their own considerable experience to SemStream Arizona.

1 Q10: Will approval of the transfer of the system to SemStream Arizona have any
2 benefits to Black Mountain Page Division's propane customers in Arizona?

3 A10: Propane supply and storage have become increasingly uncertain in recent years.
4 SemStream, L.P. has significant experience and resources in the propane marketplace. It has the
5 resources to ensure an adequate storage capability as well as access to a large number of rail cars
6 that can provide transportation flexibility to respond to changing regional propane market
7 conditions.

8 In this regard, approval of the transfer of the system and CC&N to SemStream Arizona
9 will have several benefits. Black Mountain Page Division is owned by Southwest, which is
10 primarily a natural gas company, whereas SemStream Arizona and SemStream, L.P. are primarily
11 propane and NGLs companies. Through its parent, SemStream Arizona has access to significant
12 storage and distribution resources, as I have discussed above. Since SemStream, L.P. focuses on
13 the purchase and distribution of large quantities of propane and other NGLs, customers of the
14 Black Mountain Page Division can expect to benefit from the advantages and expertise that
15 SemStream, L.P. has in the propane and other NGLs markets as one of the largest operators in the
16 industry.

17
18 Q11: What is SemStream Arizona asking of the Commission?

19 A11: SemStream Arizona seeks an Order approving the transfer and sale of the
20 regulated assets in the propane system operated by the Black Mountain Page Division, including
21 its CC&N for the regulated propane operations, to SemStream Arizona.

22
23 Q12: Is there any urgency to having the Commission decide whether to approve the sale
24 and transfer of the regulated Black Mountain Page Division assets and CC&N to SemStream
25 Arizona?

26 A12: Yes, there is urgency. Planning for procurement and supply of propane for the

1 next winter season begins in February and March each year. The contracts are typically
2 negotiated in March with a start date of April 1st of the current year through March 31st of the
3 next year. It is essential to start the supply planning process as early as possible to properly
4 identify needs, evaluate supply options and negotiate pricing. We are approaching these critical
5 months when SemStream Arizona will want to be in position as the owner and operator of the
6 Black Mountain Page Division propane system to plan for procurement and supply for the winter
7 of 2007-2008. Generally, it has been my experience that contracts entered into earlier in the year
8 provide an opportunity for more favorable terms than contracts entered into closer to the period of
9 demand. The sooner the Commission is able to approve the transfer of the regulated Page assets
10 to SemStream Arizona, the sooner we can begin to enter into contracts for next winter.

11 An expeditious decision would be beneficial to the supply planning process and ensure the
12 customers of the Page propane system secure and adequate supply. An expeditious decision
13 would also be beneficial to the Page employees who are aware of the pending Joint Application
14 before the Commission and, I understand, would appreciate learning about the status of the
15 business as soon as possible. SemStream Arizona will offer the employees of the Page propane
16 system continued employment with a company primarily involved in the propane and natural gas
17 liquids business and will offer employee benefits and health care which may be advantageous to
18 these employees. An expeditious decision would also eliminate the employee anxiety associated
19 with change.

20 A decision to approve the Joint Application would be followed by a period during which
21 SemStream Arizona and Black Mountain Page Division will close the transaction and transition
22 operations. For all of these important reasons, we are requesting a decision in this matter as
23 quickly as possible.

24
25 Q13: Does this conclude your prepared direct testimony?

26 A13: Yes it does.